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SUBJECT: TURKEY'S "HOUSTON"? : ADANA WANTS BTC PIPELINE TO ATTRACT
MORE ENERGY-RELATED INVESTMENT

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SUMMARY

11. (U) With the BTC terminal as an anchor, the Turkish government wants its eastern Mediterranean coast-line to develop into an energy-based hub that will include ship-building, petro-chemicals and oil refining. While hype about Ceyhan becoming Turkey's "Houston" or "Rotterdam" is overblown, if some of the major investments now on the drawing board come to fruition, the region could see some welcome employment growth to counter the continuing woes of the local textile industry. Adana's conservative business community is slowly embracing its region's new strategic position in world energy markets, but it is clear that the policy vision - and capital - will come from elsewhere for the foreseeable future. End summary.

BTC as Flag-Ship for New Investments

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12. (U) Even before its July inauguration, the Baku-Tbilisi-Ceyhan pipeline began operations and has now loaded over 25 million barrels of oil at the Turkish terminal near Ceyhan. GOT officials are eager to develop the region around the terminal, which is also the end-point of the Iraq-Turkey pipeline that originates in Kirkuk. The Kirkuk line has been plagued by sabotage attacks in Iraq, but at full capacity it could pump as much as 550 million barrels per annum.

13. (SBU) East of the oil terminals, the GOT has established a 150-hectare Special Economic Zone, which offers duty-free export processing privileges as well as favorable tax treatment to potential investors. According to the zone's director, Muharrem Pusat, a Turkish shipbuilding company, Hay, is building a shipyard in the zone on an area of 800,000 sqm. Initially the yard will focus on service and repair of tankers calling at the oil terminals. Later, the shipyard will also construct tankers, ultimately reaching a capacity of 20 per year ranging from 10,000 to 300,000 DWT. Pusat said the company could eventually employ up to 5,000 workers.

14. (U) The Hay project will take advantage of its proximity to Isdemir (Iskenderun Iron and Steel Industry), located a few miles across the bay of Iskenderun. Isdemir, which was privatized in 2002, has started manufacturing flat iron, an important input for shipbuilding. Adana Chamber of Industry President Umit Gozumus told us he would also like to attract some South Korean ship-building expertise to the region to develop the synergy with Isdemir further. Currently the SEZ is

mostly empty, but an Irish company, Kingspan, is finishing work on a 10m Euro plant to produce insulation panels. The zone also hopes to attract other manufacturing companies as well as petroleum-related industries such as petro-chemical processing or fertilizer plants.

One, Two, Three Refineries?

15. (U) There is also strong interest in building at least one oil refinery in the region. To date, the Turkish state-owned oil company Petrol Ofisi's plans appear most advanced; Pusat told us they have picked out a site west of the oil terminals and intend to build a plant with 10 million tons of annual capacity. Calik Energy in conjunction with an Indian partner have also announced plans for a larger refinery, with a 15 million ton capacity. Meanwhile, PM Erdogan is reportedly encouraging the Russia's Lukoil to consider building its planned Turkish refinery in Ceyhan rather than in the Black Sea province of Zonguldak, as originally planned. Finally, KazakhMunayGaz, a state-owned company, and Azerbaijan's SOCAR (a BTC partner) have also announced plans to build refineries in the region.

16. (U) These competing projects are being driven by robust growth forecasts for refined products in Turkey's under-supplied market, which is expected to increase by 6-10 percent annually in coming years. In addition, giving verbal support for a refinery project in Ceyhan is a way for energy companies to lend support for the GOT's proposed Samsun-Ceyhan Bosphorus by-pass oil pipeline without committing resources to the planned pipeline itself, whose commercial prospects are uncertain given the stiff competition from other by-pass projects .

17. (U) One reliable down-stream customer for a Ceyhan refinery is the tankers loading oil from the BTC pipeline. The nearest "gas station" for these ships is currently in Egypt and,

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according to BTC officials, these vessels could consume about 14,000 tons of fuel per year, more if the Kirkuk pipeline increases its throughput - and if Samsun-Ceyhan is realized. Tankers from Ceyhan can serve Europe or other global markets.

Adana: We're "Strategic" Now

18. (U) Adana's political and business communities are starting to embrace their region's strategic position in the world energy puzzle. At a recent seminar, experts from Ankara and Baku emphasized the BTC's international significance and talked up future ideas, such as the possibility of routing Russian and possibly Iraqi natural gas to Ceyhan, where it would be liquified for shipping to Israel and other consumers. But Adana's lack of local expertise and capital in the energy sector mean that the ideas and money for these plans will have their origins elsewhere for the foreseeable future. Houston wasn't built in a day.

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